

**Remarks by
California State Treasurer Phil Angelides
to the
Commonwealth Club
San Francisco, CA**

April 12, 2004

***Catching the Green Wave:
Believing Again in the Promise of California***

It is not only an honor to be invited to address the Commonwealth Club—it is a genuine pleasure. I mean that. Where else in California can you find a more tough-minded gathering of citizens and leaders engaged in thoughtful debate? Where else can you find Californians more willing to venture into the thickets and brambles of public policy and ask difficult questions? There is no audience more attuned to the wider sweep of events, to the long-term implications of the choices we make, than this one.

It is little wonder that testing one's mettle here at the Commonwealth Club has become mandatory duty for any self-respecting public servant aspiring to higher office.

No, that is not an announcement.

But you have my word: You will be among the first to know.

You asked me here today to discuss an initiative we recently launched in the State Treasurer's Office called the Green Wave. I am especially excited about this effort, because I think it shows what we can aspire to and achieve when we marry public investment to public purpose.

Put simply, the Green Wave calls on CalPERS and CalSTRS—the nation's largest and third-largest public pension funds, with combined assets of over \$270 billion—to invest some of that capital in a way that simultaneously produces solid financial returns, creates jobs in California, cleans up the environment here and around the world, and builds the wealth and strength of our state.

I believe that this initiative can be a model for the nation. It will show that we can pursue green policies that build our economy while meeting our green-eyeshade duty to protect and grow the assets of our pensioners and taxpayers. If we begin to think creatively and look beyond the next fiscal quarter. If we once again ask the basic question: How can we use California's abundant wealth to build a better future?

For most of the second half of the 20th Century, California was defined by our unrivaled quality of life, a quality of life that we enjoyed because of the forward-looking investments and policies of the postwar generation of our state's leaders.

Our parents and grandparents invested to build the nation's greatest higher education system. They enacted California's groundbreaking commitments to coastal protection and environmental quality. They took risks to build the enterprises and develop the technologies that thrust California into the front rank of the global economy. To the world and the rest of the country, California was always the place where America's future was being born.

Sadly, that does not seem as true today. As I travel the state, I meet more and more Californians expressing doubts about our future and troubled about where they see our state heading.

It is not hard to understand their worries. Four years after the stock market topped out and the dotcom bubble burst, they see a state budget still bleeding red ink as politicians in Sacramento fail to face fiscal reality. They see a California drifting with the currents, its ambition furlled and its course to the future uncertain.

Family breadwinners spend more and more time commuting to and from work on gridlocked freeways. Parents worry about the quality of their kids' schools and the rising cost of college. Whether the issue is the worsening air quality in the Central Valley or the inability of millions of California families to afford a home or health insurance, there is an increasing sense that our quality of life—the very idea of California—is at risk.

And at the very time when we should be thinking big to confront these challenges, when we should be building our competitive strength and laying the foundations for California's future success in the global economy, we are on the verge of reneging on historical commitments, in areas like higher education and transportation, that have been the underpinning of our prosperity.

I ask you: When did California stop believing—and investing—in its future?

Ladies and gentlemen, we have big work ahead of us.

Just consider one issue: how to protect our environment, our quality of life and our economic strength as California's population grows from today's 36 million to 46 million by 2025. That is the equivalent of adding the whole state of Michigan to California over the next two decades. We cannot sustain California's environmental quality and livability, and ultimately our economy, unless we embrace new ways of thinking and make investments that support smart growth, sustainable development and environmental preservation.

Look at the price we are already paying for our lack of foresight in transportation alone. In 2000, traffic congestion in California cost us an estimated \$21.7 billion in lost time and fuel. Traffic congestion not only hurts our productivity—it is also a primary contributor to the state's poor air quality. According to the American Lung Association, eight of the nation's 24 worst air quality basins for ozone pollution are here in California.

By not thinking ahead, we risk degrading our environment and diminishing the very quality of life that is key to our economic competitiveness.

These are big challenges, and they are going to require that we think big. And invest big.

Let me say, the temptations are always great—in politics as well as business—to limit our vision to the next election, or to the next earnings report. To avoid investments that require patience and, yes, short-term sacrifice. But I believe that we must again begin taking the long view.

Think of what our world would look like today if we had actually heeded the lessons of the oil shocks of the 1970s, if we had followed through on policies promoting energy independence through conservation and the development of alternative fuels. We do not talk enough in this country about the linkage between our environmental policies and our foreign policy, but over the last five decades we have allowed our fate to be perilously tied to the politics and turmoil of the Middle East. Our dependence on fossil fuels has not only contributed to environmental damage. More than once, we have even seen our national security jeopardized and our entire economy thrown into recession as a consequence of our addiction to oil.

As laudable as it is for the president to talk, however briefly, about being the first nation to put a man on Mars, I believe that President Bush ought instead to be challenging us to be the first industrialized nation to free ourselves from the grip of fossil fuels.

Not likely from a president and a party who believe that the jury is still out on global warming!

I still shudder when I think of the tragedy of the 2000 election—millions of environmentally minded voters rejecting the author of *Earth in Balance* and helping to elect the worst president our environment has ever seen, a president who turned our nation's energy policy over to a still undisclosed cabal of energy company executives and lobbyists, whose one true passion on the issue of the environment has been to drill in the Arctic National Wildlife Refuge.

Ladies and gentlemen, we need to start taking the long view again.

I still believe—and I know that the vast majority of Californians still believe—that we can do great things. In spite of all our problems, we have within our grasp the promise of greatness that has always propelled California forward.

It is in this spirit—with an eye toward California's economic and environmental future—that we launched the Green Wave initiative. The Green Wave seeks to harness the wealth of California's pension funds to encourage the development of alternative fuels and new environmental technologies, to address the challenges presented by pollution, growth and

global warming, and ultimately to make money for our pension funds by catching the wave of innovation in environmental technology in the years to come.

Let me talk for a few minutes in specific terms about the four pieces of our initiative.

First, I have urged CalPERS and CalSTRS to build on our record of activism in support of corporate reform by adopting an environmental corporate governance program. We will call on corporations throughout America and the world to provide more robust, detailed reporting on their environmental practices and risks. And we will mobilize other major pension funds to join us in seeking sounder environmental management practices throughout corporate America.

Shareholders deserve to know whether the companies in which they are investing are going down the prudent path by adopting environmental practices that will allow them to thrive in a world of increasing environmental concern and regulation. Or whether they are taking the path of denial, risk, liability and cost.

We have learned, particularly in the corporate scandals of the last few years, that corruption can lurk in the shadows of secrecy, and that if you do not have transparency, shareholders—and the entire community—suffer.

Take a seemingly unconnected issue, like global warming—it is a problem that we do not tend to think about in terms of its direct economic impact. But that is not how the most sophisticated investors see it. Swiss Re, the world's largest life and health reinsurer, recently estimated that the annual economic cost of natural disasters, aggravated by climate changes, could double to over \$150 billion in the next ten years, leading to \$30 to \$40 billion a year more in insurance claims. If, in the coming years, a company you are investing in is faces such risks, you will want to know. You have a right to know. And California's pension funds ought to demand to know.

The second element of the Green Wave initiative calls for a half-billion dollar investment in environmental technology. There is no question in my mind that the environmental technology sector is going to be one of the growth industries of the world—and if we are forward-thinking, it will be a major growth sector in the California economy.

Think of all the people around the developing world flocking to urban areas, of the consequent need for new technologies to deliver clean water and affordable energy that does not foul the air. Think of the expanding economies of the former Soviet bloc looking to repair the damage of a half-century of industrial development that was pursued without concern for the environment. Think, in our own country, of our need for energy and transportation technologies that will help us reach the goals of energy independence and sustainable development, that will help us deal with toxic contamination in our cities.

I want to say here and now that California should own this industry. Today, 45,000 people in the European Union are employed in wind-power manufacturing alone. And the global market for renewable energy is estimated to reach as much as \$1.9 trillion by

2020. California was once a world leader in renewable energy. We need to lead the way once again.

California has the scientists, engineers and research institutions to be on the leading edge of environmental technology. It has the manufacturing expertise and skilled workers. It has the culture of entrepreneurship and the tradition of imagining the next new thing, sometimes at the lab bench, sometimes in a garage. It has the venture capital network to fund and nurture start-up companies. It has a citizenry eager to preserve California's environment. Ladies and gentlemen, California should own this industry.

Under the Green Wave initiative, CalPERS and CalSTRS will partner with the private sector to invest venture capital, expansion capital and project financing to spur along clean technology companies in California and across the country. This \$500 million commitment—the first \$200 million of which was approved last month—will directly create about 10,000 jobs and spawn hundreds of thousands more through the magic of the multiplier effect. And this investment has the potential to send a clear message across the nation: By investing in companies devoted to solving environmental problems, you can get returns, create jobs, bolster the economy and improve the environment.

The third element of our initiative takes a portion of the assets that we now invest in stocks and places a billion dollars with firms that actively manage environmentally screened portfolios. Americans now invest \$29 billion in socially responsible funds. Many of those funds have proven over time that they can match or exceed the returns from traditional investment strategies because there is a strong correlation between long-term, responsible corporate practices and long-term value.

If we have learned one lesson from the corporate scandals of the last few years it would have to be that companies that cook their books to hype their returns over the short term leave stockholders holding the bag. The same is true of corporate environmental practices. Companies that hype their returns by degrading the environment will ultimately leave their stockholders — and all of us — with a big bill to pay.

The final element of the Green Wave initiative calls for a complete environmental audit of our pension funds' real estate holdings. CalPERS and CalSTRS have \$16 billion invested in real estate. We own nearly 160 million square feet of office and industrial properties—to put that in perspective, there are about 35 million square feet of office space in all of downtown Los Angeles. We have an obligation to reduce our costs and increase the value of our portfolio by ensuring that our buildings are energy efficient and use best environmental practices. It is not just a matter of doing the right thing—it is a matter of doing the smart thing.

In advancing the Green Wave, I have kept firmly in mind that my first responsibility as State Treasurer and as a pension fund leader is to make sure that over the next 30 years our pension funds achieve the returns that will ensure that pensions get paid. Through the Green Wave initiative we can achieve this goal in two important ways.

The first is by keeping our eye out for the risks to our portfolio. Everything from corporate malfeasance to environmental liability to the risks from climate change.

The second is by discovering the opportunities in the exciting clean technology sector that can produce both good returns for the pension funds and good results for society.

Ladies and gentlemen, I still believe that here in California we can do great things. But to do so, we must once again make smart investments in our future.

There is no doubt that the environment is an area where the need for investment and strategic planning is acute, where the challenges are great, and where the threats to the quality of our life and economic competitiveness are real.

In this sense, the Green Wave is important. But it is just part of a larger discussion we need to have in California. A discussion about the immense challenges before us, about reviving public investment in a state that is living off the foresight of an earlier generation, about creating sustainable economic progress for decades to come.

That is a discussion I am looking forward to having with you and the rest of California.

And, with that, I would be happy to answer any questions.